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As I see

REAL ESTATE CYCLES AND POLITICS

IN a country like the United States we sometimes assume that if we can only get out a large enough percentage of voters, the decisions made at the polls will be right. If the voting public were always well informed, there might be some basis for believing that most questions could be solved by counting noses.

A study of history will show us, however, that the majority is not always right, and that no tyranny and oppression can be worse than the tyranny and oppression concurred in by the great bulk of the voters. The French Revolution is a good example, as was the arrogance and cruelty of the dominant Nazi party in Germany prior to World War II.

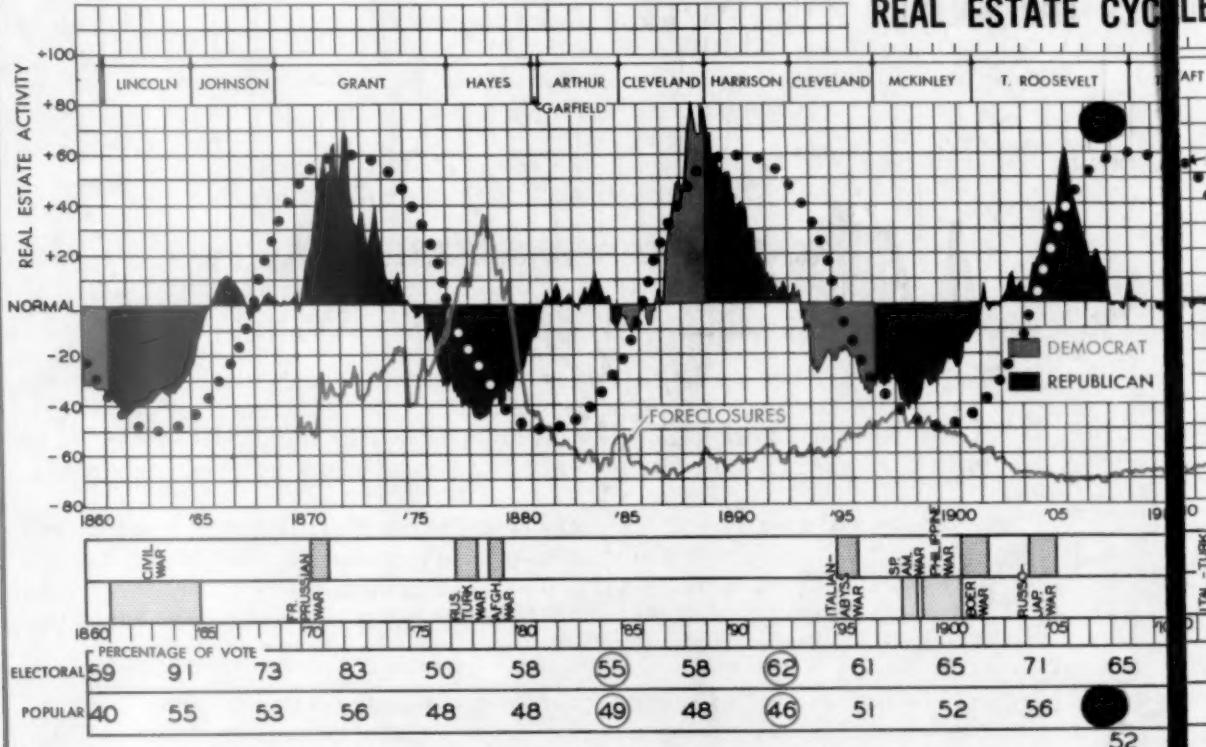
The rise and fall of political parties in the United States has been much affected by a fluctuation in business conditions. Looking back over American history we realize that these fluctuations did not result primarily from political activity or inactivity but were the result of economic forces poorly understood by the politicians of the time, who probably would have been powerless to affect them had they understood.

Twenty-one years ago in a bulletin entitled "Real Estate Cycles and Politics" I pointed out that a political party coming into office at the beginning of a readjustment period in real estate had very little chance of re-election unless a war intervened, and that a party coming into office when real estate activity was rising after a readjustment period had reached bottom would, in all probability, stay in office for a number of terms.

The chart on the center spread of this report shows the real estate activity cycle for 100 years. On this chart the cycle during Democratic administrations is colored red. During Republican administrations it is colored blue. The president in office is shown across the top of the chart. Wars, either directly involving the United States or foreign wars in which we were not involved, are shown by the strips below the chart, and the table below the war bands shows the results of each election during the 100-year period.

I think it might be interesting to quote from our explanation of this chart as it was published originally 21 years ago.

REAL ESTATE CYCLES

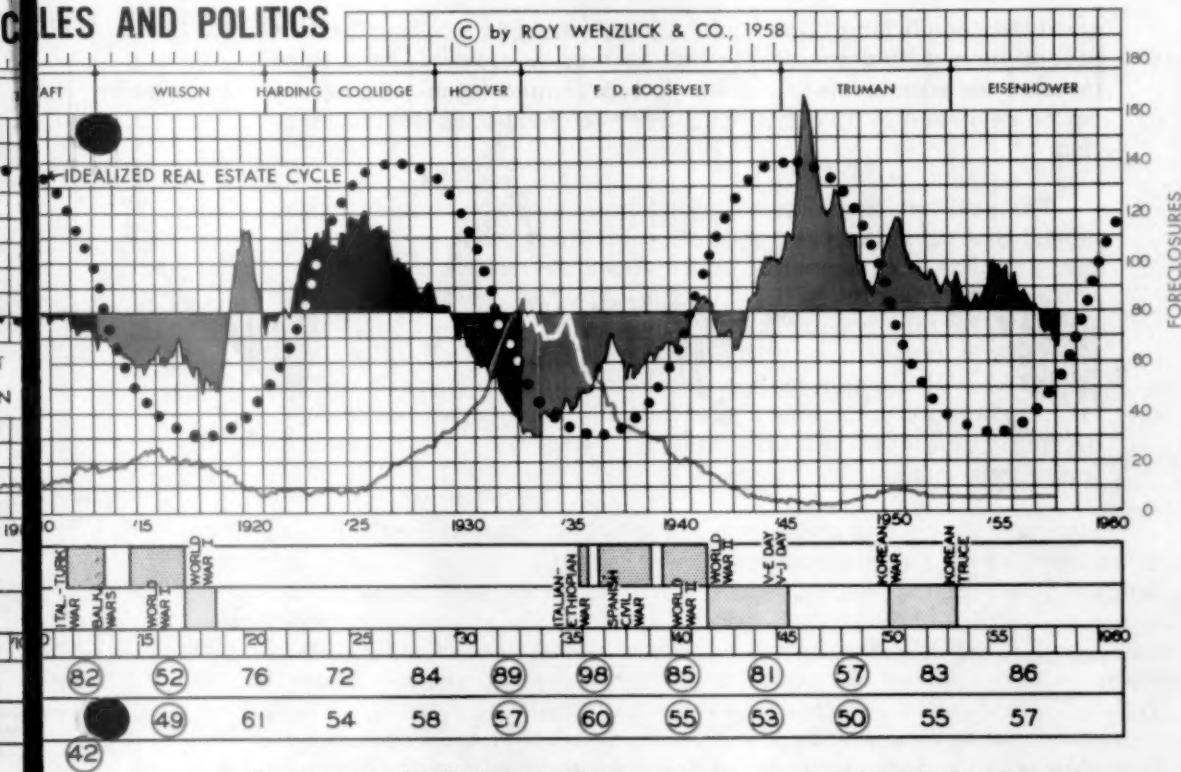


. . . Let us study the fluctuations of real estate in relation to the political party in power. In 1861 Lincoln took office at about the bottom of the real estate cycle and at the beginning of the Civil War. It is rather remarkable that in spite of the war, real estate activity improved gradually, swinging into the real boom in the administration of Grant. There is some doubt as to whether the Republicans could have withstood the tremendous depression of the seventies had not the Democrats been entirely demoralized by the Civil War. Ordinarily we would have expected the constantly declining business during Grant's second administration to have changed the party in power.

The boom in real estate in the late eighties started under the administration of Grover Cleveland, a Democrat, and reached its height during the last full year of his administration. He was followed by Harrison, a Republican, who unfortunately from his standpoint, held the presidency during a period of recession. The electorate, contrasting this decline with the increasing activity under Cleveland, returned Cleveland to the White House for a second term. However, since real estate follows a long cycle, the decline continued under Cleveland and the electorate again became displeased and returned the Republicans to office with McKinley, followed by Theodore

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Roosevelt. McKinley and Roosevelt were fortunate in being elected when the natural cycle was upward, and they received the credit for the improvement in conditions. On the strength of this improvement, Roosevelt was elected to a second term, and in spite of the decline, the Republicans in three successive four-year periods had become so firmly entrenched that Taft, a Republican, was elected in spite of the fact that we were then in the downward swing of the cycle. As activity went lower, however, the people again became displeased and elected Woodrow Wilson, a Democrat, to the White House. While real estate continued to sink under Wilson, war prosperity and the inadvisability of "swapping horses in the middle of the stream" carried Wilson through to a second term.

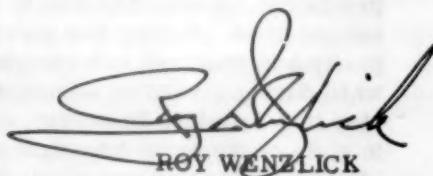
The Republicans came back to power after this long depression and Harding was followed by Coolidge, who, because of the general prosperity for which he was in no way responsible, was elected to a second term. Hoover was carried into office on the ebb of this prosperity and was then unfortunate, as the natural cycle was downward during his entire administration and nothing he could do could stop it. Franklin Roosevelt was elected at the turning point and, in spite of the many experiments which have undoubtedly had some effect in retarding business, the pull of the natural cycle was so

great that conditions improved rapidly, carrying Roosevelt into a second term with a possibility that he may be carried into a third term on the boom cycle now developing slowly and which will probably not be reversed in direction until after the next presidential election. . .

The real estate or capital goods cycle appears to be so fundamental that presidents and political parties are made and broken by it rather than presidents and political parties making the cycle. If a president comes into office during the upswing, he has a very good chance to become popular and to retain the presidency for a second term. If he comes into office as the general cycle is on the down-swing, none of his policies will apparently bring prosperity and the electorate blames the administration. The movement now is so definitely up that even major mistakes on the part of the administration will not halt the recovery.

This chart seems to indicate that the principal thing which the general public requires of the administration in power is that boom conditions continue indefinitely, and that no readjustment should ever be allowed to take place. This, of course, is nice in theory but, unfortunately, business cannot be continuously stimulated so that it moves in only one direction. A case in point is the present situation. We find ourselves suffering from the effects of the inflation of the postwar period. Our helplessness is best illustrated by the fact that the only remedies thus far advanced by either the Democrats or the Republicans are inflationary in character. Folklore may continue to insist that the best cure for a hangover is a hair of the dog that bit you, but this is not substantiated by modern medical research. To cure the evil effects of an inflationary period by inflating further must necessarily mean that each time the business situation hesitates, the dollar must be debased in an effort to keep prices and wages from falling. Unfortunately, this process, once started, apparently cannot be stopped by politicians, and while the apparent immediate effects of inflationary policies to stop a recession might seem helpful, the long-term effects destroy the real value of our economy.

A study of this chart is not encouraging to the Republican party. Unfortunately, it was returned to office this last time shortly before the readjustment became severe. The increasing severity of the readjustment would indicate that unless an upturn in general business comes sooner than our chart would seem to indicate probable, a change in political parties will take place at the next presidential election.


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